

FLEXIBLE BENEFITS

FSA & HRA

KEHP offers two Flexible Spending Accounts (FSAs) that you should consider participating in as part of your Cafeteria plan benefits. One FSA is the **Healthcare FSA**, and the other is a **Dependent Care FSA**.

Both FSAs are tax-free accounts that allow you to pay for certain healthcare or dependent care expenses with pre-tax money. You decide how much money to contribute into each account through payroll deductions. This results in you paying less in income and Social Security taxes!

Who is eligible to participate?

You are eligible to enroll in a Healthcare and/or a Dependent Care FSA if:

- You are an active employee of a state agency, school board, or certain quasi agency who is eligible for state-sponsored health insurance coverage. If you are with a quasi agency, you must contact your Insurance Coordinator for participation details.

You are not eligible to enroll in a Healthcare and/or a Dependent Care FSA if:

- You are a retiree;
- You are employed by a non-participating agency; or
- You (or your spouse) have a Health Savings Account (HSA).

When will my coverage become effective?

If you enroll during Open Enrollment you will have coverage effective January 1, 2010. You may enroll online or by completing an Enrollment Application within the timeframe as specified in this Handbook.

If you are a new employee, coverage begins on the first day of the second month following your date of hire. You can enroll online or by completing an Enrollment Application within 30 days from your date of hire.

HEALTHCARE FLEXIBLE SPENDING ACCOUNT (HC FSA)

A Healthcare Flexible Spending Account (HC FSA) is an account available for you to use to pay for certain healthcare expenses such as:

- Copayments and coinsurance
- Deductibles
- Covered over-the-counter expenses
- Dental fees
- Orthodontic treatment
- Vision exams and eyeglasses
- Wheelchairs
- Saline Solution

This is not a complete listing. You can see the complete listing at www.kehp.ky.gov.

You decide how much to contribute into a Healthcare FSA on a calendar year basis, and you may contribute up to a maximum of \$5000 a year available

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for you and your dependents who reside in your household. Be careful how you estimate your expenses - any money left in your FSA account at the

end of the year, will be forfeited. You must use-it, or you will lose-it! Review the chart below to see how a Healthcare FSA can save you money!

Example: Laura

Last year, Laura made \$28,000 and put \$1,500 in her healthcare FSA. The example below shows how much she saved by using the pre-tax money for qualified health expenses. Without an FSA, she would have paid for these expenses from her take-home pay, which she paid taxes on. She saved \$340.

	No FSA	With FSA
Annual Taxable Income	\$28,000	\$28,000
Pre-tax money deposited into FSA through payroll deduction.	0	\$1,500
Remaining taxable income	\$28,000	\$26,500
Minus federal and Social Security taxes	\$5,945	\$5,605
Remaining take-home pay	\$22,055	\$20,895
Minus the take home pay spent on qualified expenses	\$1,500	0
Remaining take home pay	\$20,555	\$20,895
Savings	0	\$340

This example is intended to demonstrate a typical tax savings based on 13.58% federal and 7.65% FICA taxes. Actual savings will vary based on your individual tax situation. Consult a tax professional for more information on tax implications of an FSA.

How will I be reimbursed for my Healthcare FSA expenses?

It's easy! You will receive the free HumanaAccessSM VISA[®] debit card, and your funds will be automatically deducted from your account. Refer to page 48 for additional information on the HumanaAccessSM VISA[®] debit card. You can use the debit card anywhere that VISA is accepted. Because of IRS rules, Humana may contact you to verify that your expense is a qualified expense.



When you make your purchase, you simply swipe your card at your provider's office or pharmacy to pay for your expense. Remember to save your receipt!! Or, if you prefer, you can pay for your expenses up-front and then mail or fax a copy of your claim to:

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Humana Spending Account
Administration Unit
P.O. Box 14167
Lexington, KY 40512-4167
800-604-6228
800-905-1851 Fax

Why do I have to save my receipts?

You must save your receipts because the IRS requires that 100% of all claims be verified as an eligible expense. Humana, our third-party administrator will try to verify that the service you received is eligible for reimbursement. If Humana cannot verify that the service is eligible, you will be required to provide documentation to them to substantiate your claim.

If you have your health insurance coverage with KEHP, then most of your healthcare FSA claims will automatically be substantiated by Humana and you will not be required to provide any documentation. If you waive your health insurance with KEHP then you will be required to substantiate all of your claims. As a waiver, Humana will not have access to your health insurance claims and therefore will not be able to automatically substantiate them.

Humana will attempt to substantiate claims for 30 days. If after 30 days the expense cannot be verified, you will be sent a letter requesting that you submit an itemized statement or an Explanation of Benefits (EOB) from your primary health plan, if applicable. If the substantiation is not received

within 30 more days, for a total of 60 days from the date of service or Humana Access Card swipe, then claims processing will be suspended. This suspension will include the use of the HAC as well as reimbursements for traditional paper claims.

Please Note: All dental and vision claims will require substantiation because Humana does not process dental and vision claims for KEHP.

How long do I have to receive reimbursement for my claims?

All claims incurred during your coverage period must be submitted for reimbursement by March 31st of the following year. This is referred to as the 'run-out period'. This applies if you are covered the full Plan Year (January 1 - December 31) or if your coverage terminates during the year.

Examples:

If you have coverage from January 1, 2010 through July 31, 2010, you have until March 31, 2011 to submit your claims for reimbursement, provided the claims were rendered during your coverage period of 1/1 through 7/31.

If you have coverage from January 1, 2010 through December 31, 2010, you have until March 31, 2011 to submit your claims for reimbursement, provided the claims were rendered during your coverage period of 1/1 through 12/31.

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- No claims will be reimbursed if the date of service is rendered after your termination date, or if the claims are submitted after your run-out period.
- No claims will be reimbursed if you swipe your HumanaAccessSM VISA[®] debit card after your termination date or after the run-out period.

DEPENDENT CARE FLEXIBLE SPENDING ACCOUNT (DC FSA)

A dependent care FSA allows you to pay for dependent care expenses such as a day care or after-school program for dependents up to age 13, or an adult day care - on a pretax basis! The maximum that you can contribute per year is based on your tax-filing status as listed below:

Married, filing a joint return	\$5,000
Head-of-Household	\$5,000
Married, filing separate returns	\$2,500

Make sure to set aside only as much as you will use - with an FSA, you can use the money only for eligible expenses paid for during the current plan year.
Remember: Use-it or lose-it!

How will I be reimbursed for my Dependent Care FSA expenses?

You must submit a statement from your daycare to Humana, which reflects the amount charged for your services. Humana will issue you a check, or

directly deposit your reimbursement into your checking account. You must submit your statement along with a completed FSA Reimbursement Form and mail or fax your claims to:

Humana Spending Account
Administration
P.O. Box 14167
Lexington KY 40512-4167
FAX 800-905-1851

HEALTH REIMBURSEMENT ACCOUNTS (HRA) - WAIVING HEALTH INSURANCE COVERAGE

If you choose to waive your health insurance coverage, you may be eligible to receive an HRA. An HRA is a federally qualified expense account that consists of funds that are set aside by **employers** to reimburse employees for qualified medical expenses such as deductibles, co-pays, vision services, and dental services. (For a complete listing of covered services visit our web site at www.kehp.ky.gov).

Under KEHP, if you waive health insurance coverage your employer will contribute \$175 per month or \$2100 per year to an HRA provided you are an active employee. Employees hired with an effective date later than January 1, will receive \$175 for each month in

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which they are eligible for health insurance. For example, if you are hired on March 1, you would be eligible for the employer contribution beginning May 1, and would receive \$175 for eight months.

Unlike the FSA, any balance remaining in your HRA at the end of the calendar year, will 'roll over' to the next calendar year, as long as you continue to waive your health insurance coverage.

Note: Employees who are 65 years old or older who waive health insurance benefits will receive a health insurance waiver **only**. After enrollment in the waiver plan, the employee must provide proof of other continuous primary health coverage, not including Medicare or a Medicare supplemental plan. Once proof of other coverage is provided, KEHP will re-evaluate the employee's eligibility and determine if they are eligible to receive the HRA funds.

Note: IRS guidelines state that if you are covered through a *Health Savings Account* through a spouse or other employment, you are not eligible to participate in a Health Reimbursement Account. If you waive coverage and elect a Health Reimbursement Account, you will be in violation of federal law.

Who is eligible to participate?

You are eligible to waive health insurance and enroll in the HRA if you are an active employee of a state agency, school board, or certain quasi agency who is eligible for state-sponsored health insurance coverage.

Who is NOT eligible?

- If you (or your spouse) have a Health Savings account (HSA), you are not allowed to have an HRA. If you have both, you will be in violation of federal tax law.
- If you are a member of an agency who chose NOT to participate in KEHP HRA.

Note:

If you elect health insurance coverage now, and later experience a Qualifying Event to drop your health insurance coverage, you will NOT receive any HRA funds. You will only be waiving your health insurance, but no HRA funds will be deposited into an HRA.

HUMANACCESS VISA card



You will receive a HumanaAccess card if:

- You waive your health insurance, elect to receive and are eligible for an HRA;
- You enroll in the Commonwealth Maximum Choice Plan; or
- You enroll in a Healthcare Flexible Spending Account (FSA)

Activate it

When you receive your card you must call 888 894-2201, toll-free to activate it. If you receive more than one card, you only need to activate one card for both to work.

Pay for other healthcare services

Pay your doctor visit co-pays with your HumanaAccess card. If you don't have a co-pay, wait until you receive a bill in the mail, write the card number on the bill and return it, or simply call the doctor's office and provide your card number and expiration date.

Use your HumanaAccess card to pay for any eligible healthcare expenses, such as:

- Co-pays, coinsurance, and deductibles
- Hospital charges
- Medical supplies
- Urgent care and emergency room visits

Note: You cannot use your HumanaAccess card for Dependent Care FSA expenses, which are explained on the previous page.

Manage your balance

For your card transaction to go through, you must have enough funds in your account to cover the full amount of the charges. To see your current balance and account activity:

- Go to www.myhumana.com
- Then click on "Register Today" if you haven't registered previously; otherwise, sign in using the User ID and password previously created on the member page
- You will then be at the MyHumana home page
- Under the MyBenefits heading, click on Healthcare FSA, and then click on "MyAccount" to see your HAC balance

You can also check your balance by calling 800 604-6228.

Age restrictions do not apply to a child